FDIC State Profile

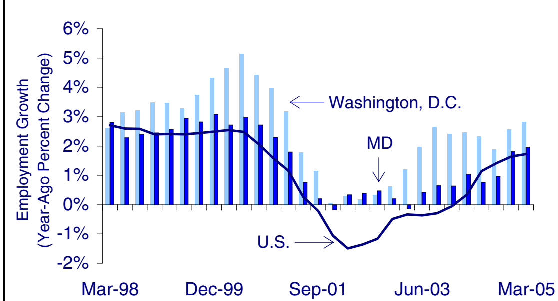
Summer 2005

Maryland and Washington, D.C.

Maryland continued to experience favorable economic growth.

- Maryland's economic growth continued at a healthy pace through first quarter 2005, reflecting strength in business services, leisure, health care, and real estate employment sectors.
- **Hagerstown** and **Salisbury** experienced the strongest job growth, with **Bethesda** trailing slightly. Conversely, job growth in **Cumberland** has declined slightly over the past year because of manufacturing job losses.
- **Washington, D.C.'s** job growth (See Chart 1) has outpaced the nation for nine years, and at 3.1 percent, the trend continued in first quarter 2005. The capital area has benefited from an expansion of businesses that provide ancillary services, such as legal and consulting, to the federal government.[1]

Chart 1: Job Growth in Washington, D.C. Has Outpaced Maryland and the U.S.

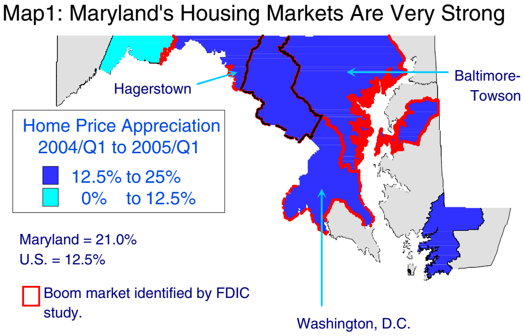


Source: Bureau of Labor Statistics

Tourism is the fastest growing industry in Maryland and Washington, D.C.

- In first quarter 2005, tourism led industry job growth, and the outlook for the year is positive.[2] During first quarter 2005, hotel occupancy levels in Washington, D.C. increased to its highest first-quarter level in five years, 66.5 percent, while revenue per room significantly improved. The number of conventions hosted by the Washington Convention Center is expected to double in 2005.

Map1: Maryland's Housing Markets Are Very Strong

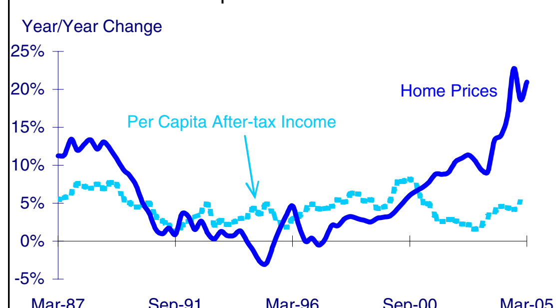


Source: Office of the Federal Housing Enterprise Oversight, FDIC FYI Revisited "U.S. Home Prices: Does Bust Always Follow Boom?" May 2, 2005.

Housing price increases are well above the U.S. average and outpace income gains.

- Home price appreciation in Maryland continued to climb at elevated rate. At approximately 21 percent, Maryland had the 5th highest statewide appreciation rate in the nation during the first quarter 2005.[3]
- A recent study by the FDIC identified 55 "boom" markets nationwide that included **Baltimore-Towson**,

Chart 2: Home Price Growth in Maryland Has Outpaced Income Growth



Sources: OFHEO, BEA/Haver Analytics

[1] Washington, D.C. refers to the metropolitan area that consists of the District of Columbia, and parts of Maryland and Virginia.
[2] Torto Wheaton Research. Hotel occupancy rates and revenue per room numbers are forecasts and include full and limited service hotels.
[3] Office of Federal Housing Enterprise Oversight.

Hagerstown, and Washington, D.C. metropolitan area (See Map 1).[4] Reports suggest that speculative home buying has increased in the Washington, D.C. area, and may be contributing to home price appreciation.[5] Home prices also are rising in less expensive markets such as Cumberland as buyers seek alternatives to higher priced housing markets.

- In 2004, home price appreciation significantly exceeded income growth by approximately four times, the greatest divergence in several decades (See Chart 2). Home price appreciation in excess of income growth may constrain housing affordability, particularly among first-time home buyers and borrowers with marginal finances.

Strong home price appreciation has contributed to increased use of adjustable-rate mortgages (ARMs) in the state.

- Despite historically low long-term mortgage rates, the use of ARMs has increased significantly among borrowers in Maryland during the past two years (See Chart 3). Some ARMs offer lower initial monthly payments than fixed-rate mortgages, enabling borrowers to finance homes that they otherwise might not be able to afford. Should interest rates rise, the repayment ability of some ARM holders could be strained.

- During 2004, interest-only (IO) mortgages, which defer principal payments for a specified period, represented about 32 and 44 percent of the securitized mortgage loans originated in Maryland and Washington D.C., respectively.[6] The increased use of innovative mortgage products may suggest that homebuyers are stretching to keep pace with increasing home prices. Interest-only mortgages may expose homebuyers to greater repayment risk when the loan re-prices or principal payments begin.

Maryland and Washington D.C. insured institutions reported steady profitability but face a flatter yield curve in the second quarter 2005.

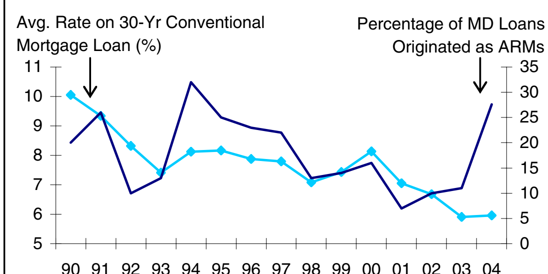
- The median return on assets increased slightly in the first quarter 2005 compared with one year ago. Margins were unchanged as asset yields and funding costs increased in step reflective of higher interest rates. Provisions for loan losses remained low reflecting strong credit quality.

- Approximately 26 percent of Maryland and Washington D.C. insured institutions (almost three times the national level) focus on residential lending and have benefited from booming housing markets, reporting strong growth in the past year.[7] However, residential lender net interest margins, which typically are influenced by the spread between long- and short-term interest rates, may moderate as the yield curve has shifted to its flattest level in four years.[8]

Credit quality continues to outperform the nation's.

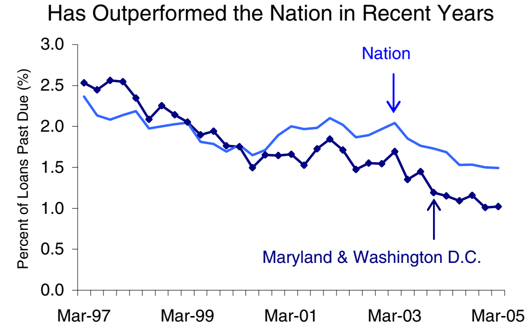
- Credit quality among Maryland and Washington D.C. banks remained below the national average (See Chart 4). Delinquency ratios on residential loans also remained low as the ability to refinance at low interest rates and an improving employment picture contributed to favorable credit quality trends.

Chart 3: In 2004, ARMs Increased in Maryland Despite Low Rates on Fixed-Rate Mortgages



Note: Data are based on a sample of conventional, single-family, purchase-money mortgages. Percentage is based on the number of loans originated.
Sources: Federal Housing Finance Board and Haver Analytics.

Chart 4: Credit Quality in Maryland/Washington D.C. Has Outperformed the Nation in Recent Years



Notes: Data include loans at least 30 days past due or in nonaccrual status. Median data displayed. Source: FDIC.

[4] Cynthia Angell and Norman Williams, FDIC FYI Revisited "U.S. Home Prices: Does Bust Always Follow Boom?" May 2, 2005. http://www.fdic.gov/bank/analytical/fyi/2005/050205fyi.html. A boom market is defined as one in which *inflation-adjusted* home prices rose by at least 30 percent during the 2001-2004 period.
[5] Patrice Hill, Region Joins Housing Bubble, *The Washington Times*, February 14, 2005.
[6] Peter Coy, "A Growing Tide of Risky Mortgages," *Business Week*, May 18, 2005.

[7] "Residential lenders" are defined as insured institutions that hold at least 50 percent of assets in one-to-four family mortgage loans and mortgage-backed securities.
[8] The yield curve is defined as the difference between the monthly average rate on 10-year and 3-month U.S. Treasury securities.

Maryland and Washington, D.C. at a Glance

ECONOMIC INDICATORS (Change from year ago quarter, unless noted)

Employment Growth Rates	Q1-05	Q1-04	Q1-03	Q1-02	Q1-01
Total Nonfarm (share of trailing four quarter employment in parentheses)	2.0%	1.0%	-0.2%	0.3%	1.8%
Manufacturing (6%)	-1.5%	-5.1%	-5.9%	-6.8%	-1.2%
Other (non-manufacturing) Goods-Producing (7%)	2.5%	4.4%	-0.5%	1.9%	4.7%
Private Service-Producing (69%)	2.5%	1.7%	0.3%	0.4%	1.9%
Government (18%)	0.8%	-0.4%	0.2%	2.2%	1.6%
Unemployment Rate (% of labor force)	4.2	4.2	4.4	4.4	3.5

Other Indicators	Q1-05	Q1-04	Q1-03	Q1-02	Q1-01
Personal Income	N/A	5.7%	2.7%	4.2%	6.5%
Single-Family Home Permits	8.5%	4.0%	-13.0%	2.9%	-9.7%
Multifamily Building Permits	172.0%	-22.8%	-18.8%	28.0%	78.6%
Existing Home Sales	-1.1%	10.2%	2.1%	10.0%	15.4%
Home Price Index	21.0%	13.8%	10.6%	9.0%	7.1%
Bankruptcy Filings per 1000 people (quarterly level)	1.35	1.46	1.69	1.69	1.73

BANKING TRENDS

General Information	Q1-05	Q1-04	Q1-03	Q1-02	Q1-01
Institutions (#)	122	127	130	136	142
Total Assets (in millions)	47,663	44,777	59,268	57,159	55,506
New Institutions (# < 3 years)	6	3	4	6	8
Subchapter S Institutions	4	2	2	2	2

Asset Quality	Q1-05	Q1-04	Q1-03	Q1-02	Q1-01
Past-Due and Nonaccrual Loans / Total Loans (median %)	1.00	1.08	1.65	1.71	1.64
ALLL/Total Loans (median %)	0.94	0.97	1.06	1.11	1.10
ALLL/Noncurrent Loans (median multiple)	2.65	2.24	1.60	1.49	2.02
Net Loan Losses / Total Loans (median %)	0.02	0.03	0.03	0.03	0.03

Capital / Earnings	Q1-05	Q1-04	Q1-03	Q1-02	Q1-01
Tier 1 Leverage (median %)	9.44	9.33	9.74	10.30	10.28
Return on Assets (median %)	0.91	0.90	0.91	0.84	0.87
Pretax Return on Assets (median %)	1.40	1.37	1.43	1.29	1.34
Net Interest Margin (median %)	4.20	4.19	4.28	4.20	4.26
Yield on Earning Assets (median %)	6.69	6.65	6.78	6.99	7.28
Cost of Funding Earning Assets (median %)	2.65	2.61	2.79	3.03	3.32
Provisions to Avg. Assets (median %)	0.09	0.08	0.09	0.07	0.08
Noninterest Income to Avg. Assets (median %)	0.53	0.58	0.64	0.59	0.59
Overhead to Avg. Assets (median %)	3.02	2.98	2.92	2.88	2.94

Liquidity / Sensitivity	Q1-05	Q1-04	Q1-03	Q1-02	Q1-01
Loans to Assets (median %)	70.1	66.8	64.0	66.5	68.8
Noncore Funding to Assets (median %)	20.5	18.8	18.3	16.5	15.0
Long-term Assets to Assets (median %, call filers)	19.2	20.5	17.7	16.9	14.1
Brokered Deposits (number of institutions)	35	26	26	27	23
Brokered Deposits to Assets (median % for those above)	3.3	4.1	3.6	2.9	3.1

Loan Concentrations (median % of Tier 1 Capital)	Q1-05	Q1-04	Q1-03	Q1-02	Q1-01
Commercial and Industrial	64.9	54.2	55.0	48.6	47.7
Commercial Real Estate	241.9	230.1	187.6	173.5	164.9
Construction & Development	48.2	43.6	31.6	26.2	25.1
Multifamily Residential Real Estate	2.8	2.3	3.0	3.1	3.3
Nonresidential Real Estate	144.2	131.7	132.0	128.1	108.3
Residential Real Estate	318.4	319.7	289.5	290.2	313.3
Consumer	17.6	19.1	22.2	26.8	25.5
Agriculture	1.5	2.6	2.5	0.5	0.7

BANKING PROFILE

Largest Deposit Markets	Institutions in Market	Deposits ($ millions)	Asset Distribution	Institutions
Baltimore-Towson, MD	88	40,459	< $250 million	78 (63.9%)
Cumberland, MD-WV	7	800	$250 million to $1 billion	34 (27.9%)
			$1 billion to $10 billion	10 (8.2%)
			> $10 billion	0 (0%)